

CITY OF CLAWSON
Oakland County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Clawson	County Oakland
Audit Date 6/30/04	Opinion Date 10/7/04	Date Accountant Report Submitted to State: 12.2.04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

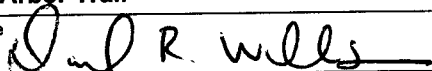
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel			
Street Address 1034 W. Ann Arbor Trail	City Plymouth	State MI	ZIP 48170
Accountant Signature  CPA		Date 12.2.04	

CITY OF CLAWSON
For the Year Ended June 30, 2004

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For the Year Ended June 30, 2004

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FINANCIAL SECTION

POST, SMYTHE, LUTZ AND ZIEL LLP

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Independent Auditor's Report

October 7, 2004

To the Honorable Mayor and
Members of the City Council
City of Clawson, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clawson, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Clawson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clawson as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

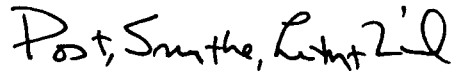
The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally

Honorable Mayor and Members of the
City Council
City of Clawson, Michigan

accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clawson's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants



City of Clawson

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Management's Discussion and Analysis

As management of the City of Clawson, we offer readers of the City of Clawson's financial statements this narrative overview and analysis of the financial activities of the City of Clawson for the fiscal year ended June 30, 2004.

Financial Highlights

- The assets of the City of Clawson exceeded its liabilities at the close of the most recent fiscal year by \$10,215,126 (*net assets*). Of this amount, \$3,556,314 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$1,790,485, an increase of \$1,098 in comparison with the prior year. Approximately 54 percent of this amount, \$972,137 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the general fund had a deficit unreserved fund balance due to future obligations and prepaid expenses.
- The City of Clawson's total debt decreased by \$461,231, (4.5 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Clawson's basic financial statements. The City of Clawson's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Clawson's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Clawson's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Clawson is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave time).

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Both of the government-wide financial statements distinguish functions of the City of Clawson that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Clawson include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the City of Clawson include the water and sewer system and senior citizen housing.

The government-wide financial statements include not only the City of Clawson itself (known as the *primary government*), but also a legally separate downtown development authority for which the City of Clawson is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Clawson, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Clawson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Clawson maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and the major street fund, both of which are considered to be major funds. Data from the other two governmental funds, the local street fund and the refuse collection fund, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

A budgetary comparison statement has been provided for the major funds, the general fund and the major street fund, to demonstrate compliance with their annual appropriated budgets.

Proprietary funds. The City of Clawson maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Clawson used enterprise funds to account for its water and sewer system and for its senior citizen housing. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Clawson's various functions. The City of Clawson uses an internal service fund to account for its fleet of vehicles. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer system and for senior citizen housing, the first of which is which is considered to be a major fund of the City of Clawson.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Clawson's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Clawson's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 44-45 of this report.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 46-49 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Clawson, assets exceeded liabilities by \$10,215,126 at the close of the most recent fiscal year.

By far the largest portion of the City of Clawson's net assets (63 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, office equipment, furniture, and other equipment), less any related debt used to acquire those assets that is still outstanding. The City of Clawson used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Clawson's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Clawson's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 3,005,648	\$ 3,049,182	\$ 11,747,713	\$ 12,417,629	\$ 14,753,361	\$ 15,466,811
Capital Assets	2,807,293	2,524,600	3,297,548	2,663,064	6,104,841	5,187,664
Total Assets	5,812,941	5,573,782	15,045,261	15,080,693	20,858,202	20,654,475
Long-term Liab Outstanding	696,539	775,266	9,077,736	9,476,046	9,774,275	10,251,312
Other Liabilities	509,540	453,119	359,261	280,927	868,801	734,046
Total Liabilities	1,206,079	1,228,385	9,436,997	9,756,973	10,643,076	10,985,358
Net Assets:						
Invested in Capital Assets, net of related debt	2,612,952	2,271,526	3,857,535	2,663,064	6,470,487	4,934,590
Restricted	188,325	126,905	-	-	188,325	126,905
Unrestricted	1,805,585	1,946,966	1,750,729	2,660,656	3,556,314	4,607,622
Total Net Assets	\$ 4,606,862	\$ 4,345,397	\$ 5,608,264	\$ 5,323,720	\$ 10,215,126	\$ 9,669,117

An additional portion of the City of Clawson's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,556,314) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Clawson is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$546,009 during the current fiscal year. This increase represents a decrease in debt (not issuing new debt while making payments on existing debt) and an increase in capital assets.

Governmental activities. Governmental activities increased the City of Clawson's net assets by \$261,465. Increases in capital assets, net of debt and budget cuts and reduced expenditures are the major reasons for the increase in net assets.

City of Clawson – Changes in Net Assets

	Governmental Activities		Business Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 719,010	\$ 1,207,496	\$ 2,893,113	\$ 2,912,842	\$ 3,612,123	\$ 4,120,338
Operating Grants & Contributions	816,026	711,881	-	-	816,026	711,881
Capital Grants & Contributions	60,000	5,625	29,267	36,578	89,267	42,203
General Revenues:						
Property Taxes	4,713,459	4,625,816	-	-	4,713,459	4,625,816
State Shared Revenues	1,257,715	1,337,242	-	-	1,257,715	1,337,242
Franchise Fees	116,510	107,817	-	-	-	107,817
Unrestricted Investment Earnings	63,161	104,955	10,585	29,596	73,746	134,551
Gain on Sale of Assets	-	7,345	-	-	-	7,345
Total Revenues	7,745,881	8,108,177	2,932,965	2,979,016	10,562,336	11,087,193
Expenses:						
General Government	1,855,951	2,023,080	-	-	1,855,951	2,023,080
Public Safety	2,627,563	2,820,931	-	-	2,627,563	2,820,931
Public Works	1,194,014	1,771,329	-	-	1,194,014	1,771,329
Sanitation	734,229	756,612	-	-	734,229	756,612
Health and Welfare	170,387	171,485	-	-	170,387	171,485
Recreation and Cultural	904,291	1,078,470	-	-	904,291	1,078,470
Interest on Long-Term Debt	17,981	15,481	-	-	17,981	15,481
Water and Sewer	-	-	2,588,734	2,677,258	2,588,734	2,677,258
Senior Housing	-	-	39,687	34,401	39,687	34,401
Total Expenses	7,504,416	8,637,388	2,628,421	2,711,659	10,132,837	11,349,047
Change in Net Assets before Transfers	241,465	(529,211)	304,544	267,357	429,499	(261,854)
Transfers	20,000	71,924	(20,000)	(71,924)	-	-
Change in Net Assets	\$ 261,465	\$ (457,287)	\$ 284,544	\$ 195,433	\$ 429,499	\$ (261,854)

Business-type activities. Business-type activities increased the City of Clawson's net assets by \$284,544. Key elements of this increase are as follows:

- Operating Expenses dropped 6.8 percent for the Water and Sewer Fund for the fiscal year. Reductions in personnel costs and lower repairs and maintenance charges are the major factors attributable to this 6.8 percent drop. Operating Revenues in the Water and Sewer Fund dropped less than 1% from last fiscal year. Although the charges for water and sewer were increased by 5 percent, water usage was down 8.2 percent from the previous fiscal year. With the drop in sales of water, the retained earnings increased less than it would have with higher water sales. Additional rate increases are anticipated in order to meet the annual \$620,000 in sewer debt service charges, as well as much needed water and sewer system improvements.

Financial Analysis of the Government's Funds

As noted earlier, the City of Clawson used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Clawson's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Clawson's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Clawson's governmental funds reported combined ending fund balances of \$1,790,485, an increase of \$1,098 in comparison with the prior year. 54 percent of this total amount (\$972,137) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been 1) committed to uphold contracts of prior periods (\$188,325), 2) committed to pay expenditures of the next period (\$168,482) or, 3) unavailable as an advance due from the component unit (\$461,541).

The general fund is the chief operating fund of the City of Clawson. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(486,559), while total fund balance is \$293,759. As a measure of the general funds' liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0 percent of total general fund expenditures, while total fund balance represents 4.5 percent of that same amount.

The fund balance of the City of Clawson's general fund decreased by \$337,126 during the current fiscal year. Key factors in this decrease are as follows:

- A decrease in state shared revenue of \$79,527 from the prior fiscal year. State shared revenues have decreased for four consecutive fiscal years.
- Recording the purchase of the fire truck in general fund capital assets for \$466,374.

Proprietary funds. The City of Clawson's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,605,996 and \$144,733 for the Senior Housing Fund. The total growth in net assets for both funds was \$281,469 and \$3,075, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Clawson's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$217,650, shown as a decrease in appropriations. They are briefly summarized as follows:

- \$127,025 decrease in police department overtime and retirement buy-out wages.
- \$98,050 decrease in fire department capital expenditures.

Capital Asset and Debt Administration

Capital assets. The City of Clawson's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$6,104,841 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, and streets. The total increase in the City of

Clawson's investment in capital assets for the current fiscal year was 18 percent (a 6 percent increase for governmental activities and a 12 percent increase for business-type activities). Major capital asset events during the current fiscal year included the following:

- Purchase of a new fire truck in the General Fund. Replacement of water mains on Crooks Road and Main Street in the Water and Sewer Fund. Some sidewalk and pavement replacement was completed in those areas as well.

Long-term debt. At the end of the current fiscal year, the City of Clawson had total bonded debt outstanding of \$6,794,858 (George W. Kuhn Drain project), \$2,262,741 of contracts payable (North Arm Drain project), and \$194,341 of installment loans payable. All of the City of Clawson's debt represents general obligation debt backed by the full faith and credit of the City of Clawson.

The City of Clawson's total debt decreased by \$444,681 (5 percent), during the current fiscal year. The key factor in this decrease was payment of principal for the North Arm Drain Debt to the City of Royal Oak in the amount of \$349,131 and principal payments to Oakland County Drain Commission for the George W. Kuhn Drain project of \$52,622. This debt is recorded in and paid for by the City of Clawson's Water and Sewer Fund. Additional information on the City of Clawson's long-term debt can be found in note IV. E. on pages 34-35 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate is still high in the State of Michigan and the State's economy continues to struggle. Shortfalls in the State budget, likely mean further reductions in state shared revenues to cities, villages, and townships. State shared revenues are expected to be frozen in the 2004-2005 fiscal year. The City of Clawson anticipates the statutory portion of state shared revenue to be eliminated in the future. The plan is to budget for a decrease in statutory state shared revenue of 20% per year over the next five budget years. There is a 20% reduction in the 2004-2005 budget for this line item. This is in anticipation of continued cuts by the State of Michigan. The City of Clawson's millage rate was reduced again by the Headlee Amendment rollback to 10.9700 for general operating purposes. Voters approved 2 mills of additional general operating millage in November of 2003. This is a 10-year millage approval. This millage was also rolled back to 1.9608 due to the Headlee Amendment. The preceding factors were considered in preparing the City of Clawson's budget for the 2005 fiscal year.

Unreserved fund balance in the General Fund increased during the year, however the total is still reflected as a negative balance. The City of Clawson has presented a budget surplus in the 2005 fiscal year of \$233,396, in an attempt to rebuild the unreserved fund balance.

The Water and Sewer Fund and the Senior Housing Fund rates were increased for the 2005 budget year. The water and sewer rates were increased by an average of 4.7 percent for all customers and the senior housing rates were increased by an average of 3.13 percent. These rate increases were necessary to finance the debt service and the ongoing water and sewer system improvements and to maintain the facilities for the senior housing complex.

Requests for Information

This financial report is designed to provide a general overview of the City of Clawson's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Clawson, 425 N. Main Street, Clawson, Michigan 48017-1555.

BASIC FINANCIAL STATEMENTS

CITY OF CLAWSON
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Dev Authority
ASSETS				
Cash and Cash Equivalents	\$ 1,776,613	\$ 1,153,221	\$ 2,929,834	\$ 144,284
Receivables (net of allowance for uncollectibles)	274,992	990,458	1,265,450	59,653
Due from Component Units	19,975	-	19,975	-
Due from Other Governmental Units	246,438	-	246,438	-
Advance to Component Unit	461,541	-	461,541	-
Inventory	11,244	-	11,244	-
Prepaid Expenditures	170,942	2,253	173,195	-
Restricted Assets - Cash and Cash Equivalents	43,903	-	43,903	-
Capital Assets (net of accumulated depreciation)	2,807,293	3,297,548	6,104,841	-
Intangible Assets (net of accumulated amortization)	-	9,601,781	9,601,781	-
Total Assets	<u>5,812,941</u>	<u>15,045,261</u>	<u>20,858,202</u>	<u>203,937</u>
LIABILITIES				
Accounts Payable	305,596	304,311	609,907	3,650
Accrued Liabilities	190,346	5,485	195,831	-
Retainage Payable	-	35,953	35,953	-
Due to Primary Government	-	-	-	19,975
Advance from Primary Government	-	-	-	461,541
Deposits	-	13,512	13,512	-
Deferred Revenue	13,598	-	13,598	-
Noncurrent Liabilities:				
Due within one year	132,644	379,971	512,615	-
Due in more than one year	563,895	8,697,765	9,261,660	-
Total Liabilities	<u>1,206,079</u>	<u>9,436,997</u>	<u>10,643,076</u>	<u>485,166</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	2,612,952	3,857,535	6,470,487	-
Restricted for:				
Drug Law Enforcement	43,903	-	43,903	-
Transportation	144,422	-	144,422	-
Unrestricted (Deficit)	1,805,585	1,750,729	3,556,314	(281,229)
Total Net Assets (Deficit)	<u>\$ 4,606,862</u>	<u>\$ 5,608,264</u>	<u>\$ 10,215,126</u>	<u>\$ (281,229)</u>

CITY OF CLAWSON
Statement of Activities
For the Year Ended June 30, 2004

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	\$ 1,855,951	\$ 331,713	\$ -	\$ -
Public Safety	2,627,563	202,041	10,312	-
Public Works	1,194,014	12,450	740,302	-
Sanitation	734,229	25,826	-	-
Health and Welfare	170,387	-	-	-
Recreation and Cultural	904,291	146,980	65,412	60,000
Interest on Long-Term Debt	17,981	-	-	-
Total Governmental Activities	<u>7,504,416</u>	<u>719,010</u>	<u>816,026</u>	<u>60,000</u>
Business-type Activities:				
Water and Sewer	2,588,734	2,835,699	-	29,267
Senior Citizen Housing	39,687	57,414	-	-
Total Business-type Activities	<u>2,628,421</u>	<u>2,893,113</u>	<u>-</u>	<u>29,267</u>
Total Primary Government	\$ <u>10,132,837</u>	\$ <u>3,612,123</u>	\$ <u>816,026</u>	\$ <u>89,267</u>
Component Unit:				
Downtown Development Authority	\$ <u>52,718</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

General Revenues:
Property Taxes
State Shared Revenue
Cable Franchise
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers

Change in Net Assets
Net Assets (Deficit) - Beginning

Net Assets (Deficit) - Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,524,238)	\$ -	\$ (1,524,238)	\$ -
(2,415,210)	-	(2,415,210)	-
(441,262)	-	(441,262)	-
(708,403)	-	(708,403)	-
(170,387)	-	(170,387)	-
(631,899)	-	(631,899)	-
(17,981)	-	(17,981)	-
<u>(5,909,380)</u>	<u>-</u>	<u>(5,909,380)</u>	<u>-</u>
-	276,232	276,232	-
-	17,727	17,727	-
-	<u>293,959</u>	<u>293,959</u>	<u>-</u>
<u>(5,909,380)</u>	<u>293,959</u>	<u>(5,615,421)</u>	<u>-</u>
-	-	-	(52,718)
4,713,459	-	4,713,459	124,429
1,257,715	-	1,257,715	-
116,510	-	116,510	-
63,161	10,585	73,746	652
20,000	(20,000)	-	-
<u>6,170,845</u>	<u>(9,415)</u>	<u>6,161,430</u>	<u>125,081</u>
261,465	284,544	546,009	72,363
<u>4,345,397</u>	<u>5,323,720</u>	<u>9,669,117</u>	<u>(353,592)</u>
<u>\$ 4,606,862</u>	<u>\$ 5,608,264</u>	<u>\$ 10,215,126</u>	<u>\$ (281,229)</u>

City of Clawson
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 37,693	\$ 1,042,002	\$ 452,535	\$ 1,532,230
Receivables (net of allowance for uncollectibles)	261,555	5,477	7,960	274,992
Due from Component Unit	19,975	-	-	19,975
Due from State	188,704	40,967	16,767	246,438
Restricted Asset - Cash	43,903	-	-	43,903
Advance to Component Unit	461,541	-	-	461,541
Inventory	-	11,244	-	11,244
Prepaid Expenditures	167,969	513	-	168,482
Total Assets	<u>\$ 1,181,340</u>	<u>\$ 1,100,203</u>	<u>\$ 477,262</u>	<u>\$ 2,758,805</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 214,719	\$ 2,839	\$ 73,466	\$ 291,024
Accrued and Other Liabilities	224,419	1,535	2,899	228,853
Advance from Other Fund	434,845	-	-	434,845
Deferred Revenue	13,598	-	-	13,598
Total Liabilities	<u>887,581</u>	<u>4,374</u>	<u>76,365</u>	<u>968,320</u>
Fund Balance:				
Reserved for:				
Transportation	106,905	-	37,517	144,422
Advances	461,541	-	-	461,541
Prepays	167,969	513	-	168,482
Drug Law Enforcement	43,903	-	-	43,903
Unreserved, reported in:				
General Fund	(486,559)	-	-	(486,559)
Special Revenue Funds	-	1,095,316	363,380	1,458,696
Total Fund Balance	<u>293,759</u>	<u>1,095,829</u>	<u>400,897</u>	<u>1,790,485</u>
Total Liabilities and Fund Balance	<u>\$ 1,181,340</u>	<u>\$ 1,100,203</u>	<u>\$ 477,262</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,366,974
Internal Service Funds are used by management to charge the costs of motor pool to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	965,559
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(516,156)
Net Assets of Governmental Activities	<u>\$ 4,606,862</u>

CITY OF CLAWSON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

	General	Major Street	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$ 3,956,141	\$ -	\$ 757,318	\$ 4,713,459
Licenses and Permits	134,049	-	-	134,049
Intergovernmental:				
Federal, State and Local	1,373,439	498,794	241,508	2,113,741
Charges for Services	202,175	-	-	202,175
Fines and Forfeitures	96,825	-	-	96,825
Franchise Fees	116,510	-	-	116,510
Interest and Rent	76,881	9,158	1,473	87,512
Other	267,312	-	-	267,312
Total Revenues	<u>6,223,332</u>	<u>507,952</u>	<u>1,000,299</u>	<u>7,731,583</u>
<u>Expenditures</u>				
Current:				
General Government	1,208,733	-	-	1,208,733
Public Safety	2,488,101	-	-	2,488,101
Public Works	655,182	200,435	235,363	1,090,980
Sanitation	-	-	734,229	734,229
Health and Welfare	170,387	-	-	170,387
Recreation and Cultural	874,182	-	-	874,182
Other Functions	568,172	-	-	568,172
Debt Service:				
Principal	43,096	-	-	43,096
Interest and Other Charges	12,783	-	-	12,783
Capital Outlay	559,822	-	-	559,822
Total Expenditures	<u>6,580,458</u>	<u>200,435</u>	<u>969,592</u>	<u>7,750,485</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(357,126)</u>	<u>307,517</u>	<u>30,707</u>	<u>(18,902)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	20,000	-	110,000	130,000
Transfers Out	-	(110,000)	-	(110,000)
Total Other Financing Sources (Uses)	<u>20,000</u>	<u>(110,000)</u>	<u>110,000</u>	<u>20,000</u>
Net Change in Fund Balance	(337,126)	197,517	140,707	1,098
Fund Balance - Beginning	<u>630,885</u>	<u>898,312</u>	<u>260,190</u>	<u>1,789,387</u>
Fund Balance - Ending	<u>\$ 293,759</u>	<u>\$ 1,095,829</u>	<u>\$ 400,897</u>	<u>\$ 1,790,485</u>

CITY OF CLAWSON
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ 1,098
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	338,043
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,408
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Internal service funds are used by management to charge the costs of fleet management and management information systems to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>(81,084)</u>
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Change in net assets in governmental activities	\$ <u>261,465</u>
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CITY OF CLAWSON

**Balance Sheet
Proprietary Funds
June 30, 2004**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water & Sewer	Other Fund- Senior Citizens Housing	Total	
<u>ASSETS</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,006,917	\$ 146,304	\$ 1,153,221	\$ 244,383
Accounts Receivable	989,948	510	990,458	-
Prepaid Expense	2,253	-	2,253	2,460
Total Current Assets	<u>1,999,118</u>	<u>146,814</u>	<u>2,145,932</u>	<u>246,843</u>
Advance to General Fund	-	-	-	434,845
Property, Plant and Equipment:				
Land	-	54,028	54,028	-
Land Improvements	-	27,050	27,050	-
Buildings	47,782	310,820	358,602	-
Improvements Other Than Buildings	6,693,407	-	6,693,407	-
Machinery and Equipment	145,755	58,377	204,132	1,368,336
Accumulated Depreciation	<u>(3,839,953)</u>	<u>(199,718)</u>	<u>(4,039,671)</u>	<u>(928,017)</u>
Net Property, Plant and Equipment	<u>3,046,991</u>	<u>250,557</u>	<u>3,297,548</u>	<u>440,319</u>
Intangible Assets (net of accumulated amortization)	<u>9,601,781</u>	-	<u>9,601,781</u>	-
Total Assets	<u>\$ 14,647,890</u>	<u>\$ 397,371</u>	<u>\$ 15,045,261</u>	<u>\$ 1,122,007</u>
<u>LIABILITIES AND EQUITY</u>				
Current Liabilities:				
Accounts Payable	\$ 304,032	\$ 279	\$ 304,311	\$ 14,572
Accrued Liabilities	5,485	-	5,485	2,948
Retainage Payable	35,953	-	35,953	-
Compensated Absences Payable	2,156	-	2,156	1,579
Deposits	11,710	1,802	13,512	-
Contracts Payable	110,103	-	110,103	-
Notes Payable	-	-	-	57,687
Bonds Payable	<u>267,712</u>	<u>-</u>	<u>267,712</u>	<u>-</u>
Total Current Liabilities	<u>737,151</u>	<u>2,081</u>	<u>739,232</u>	<u>76,786</u>
Long-Term Liabilities:				
Compensated Absences Payable	33,786	-	33,786	22,815
Contracts Payable	2,152,638	-	2,152,638	-
Notes Payable	-	-	-	56,847
Bonds Payable	<u>6,511,341</u>	<u>-</u>	<u>6,511,341</u>	<u>-</u>
Total Long-Term Liabilities	<u>8,697,765</u>	<u>-</u>	<u>8,697,765</u>	<u>79,662</u>
Equity:				
Invested in Capital Assets, Net of Related Debt	3,606,978	250,557	3,857,535	325,785
Unreserved	<u>1,605,996</u>	<u>144,733</u>	<u>1,750,729</u>	<u>639,774</u>
Total Equity	<u>5,212,974</u>	<u>395,290</u>	<u>5,608,264</u>	<u>965,559</u>
Total Liabilities and Equity	<u>\$ 14,647,890</u>	<u>\$ 397,371</u>	<u>\$ 15,045,261</u>	<u>\$ 1,122,007</u>

CITY OF CLAWSON
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water & Sewer	Other Fund- Senior Citizens Housing	Total	
<u>Operating Revenues:</u>				
Charges for Services	\$ 2,778,657	\$ -	\$ 2,778,657	\$ 280,555
Rental Income	-	57,290	57,290	-
Penalty Charges	54,182	-	54,182	-
Miscellaneous	2,860	124	2,984	-
Total Operating Revenues	<u>2,835,699</u>	<u>57,414</u>	<u>2,893,113</u>	<u>280,555</u>
<u>Operating Expenses:</u>				
Salaries and Fringe Benefits	249,502	-	249,502	137,917
Water Purchases	459,901	-	459,901	-
Sewage and Waste Disposal Charges	1,239,352	-	1,239,352	-
Supplies	52,839	-	52,839	73,915
Repairs & Maintenance	10,826	8,864	19,690	34,108
Depreciation	87,890	11,067	98,957	100,966
Other	241,175	19,756	260,931	23,833
Total Operating Expenses	<u>2,341,485</u>	<u>39,687</u>	<u>2,381,172</u>	<u>370,739</u>
Operating Income (Loss)	<u>494,214</u>	<u>17,727</u>	<u>511,941</u>	<u>(90,184)</u>
<u>Non-Operating Revenues (Expenses):</u>				
Intergovernmental-Federal	29,267	-	29,267	-
Interest Earned	5,237	5,348	10,585	14,298
Interest Expense	(247,249)	-	(247,249)	(5,198)
Total Non-Operating Revenues (Expenses)	<u>(212,745)</u>	<u>5,348</u>	<u>(207,397)</u>	<u>9,100</u>
Income (Loss) before Operating Transfers	281,469	23,075	304,544	(81,084)
<u>Operating Transfers:</u>				
Operating Transfers Out	-	(20,000)	(20,000)	-
Net Income (Loss)	281,469	3,075	284,544	(81,084)
Fund Equity, Beginning	<u>4,931,505</u>	<u>392,215</u>	<u>5,323,720</u>	<u>1,046,643</u>
Fund Equity, Ending	<u>\$ 5,212,974</u>	<u>\$ 395,290</u>	<u>\$ 5,608,264</u>	<u>\$ 965,559</u>

CITY OF CLAWSON
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water & Sewer	Other Fund- Senior Citizens Housing	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers and users	\$ 2,874,875	\$ 56,668	\$ 2,931,543	\$ -
Receipts from quasi-external transactions	-	-	-	280,814
Payments to Suppliers	(1,925,350)	(28,580)	(1,953,930)	(122,131)
Payments to Employees	(245,576)	-	(245,576)	(133,724)
Net Cash Provided by Operating Activities	<u>703,949</u>	<u>28,088</u>	<u>732,037</u>	<u>24,959</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Transfer to other funds	-	(20,000)	(20,000)	-
Advance to other funds	-	-	-	(434,845)
Subsidy from federal grant	<u>29,267</u>	<u>-</u>	<u>29,267</u>	<u>-</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>29,267</u>	<u>(20,000)</u>	<u>9,267</u>	<u>(434,845)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Proceeds from Debt	-	-	-	(45,616)
Purchases of Capital Assets	(733,441)	-	(733,441)	-
Principal Paid on Capital Debt	(401,753)	-	(401,753)	(15,638)
Interest Paid on Capital Debt	<u>(247,249)</u>	<u>-</u>	<u>(247,249)</u>	<u>(5,198)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,382,443)</u>	<u>-</u>	<u>(1,382,443)</u>	<u>(66,452)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Earned	<u>5,237</u>	<u>5,348</u>	<u>10,585</u>	<u>14,298</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(643,990)	13,436	(630,554)	(462,040)
Cash and Cash Equivalents, Beginning	<u>1,650,907</u>	<u>132,868</u>	<u>1,783,775</u>	<u>706,423</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,006,917</u>	<u>\$ 146,304</u>	<u>\$ 1,153,221</u>	<u>\$ 244,383</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ 494,214	\$ 17,727	\$ 511,941	\$ (90,184)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	87,890	11,067	98,957	100,966
(Increase) Decrease in Receivables	39,581	(21)	39,560	259
(Increase) Decrease in Prepaids	(198)	-	(198)	(256)
Increase (Decrease) in Accounts Payable	58,295	40	58,335	9,981
Increase (Decrease) in Accrued Liabilities	483	-	483	730
Increase (Decrease) in Retainage Payable	20,646	-	20,646	-
Increase (Decrease) in Compensated Absences	3,443	-	3,443	3,463
Increase (Decrease) in Deposits	(405)	(725)	(1,130)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 703,949</u>	<u>\$ 28,088</u>	<u>\$ 732,037</u>	<u>\$ 24,959</u>

CITY OF CLAWSON
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Fire Retirement System Trust Fund	Tax Collection Agency Fund
<u>ASSETS</u>		
Cash	\$ -	\$ 7,459
Investments	1,302,257	-
Total Assets	<u>1,302,257</u>	<u>7,459</u>
<u>LIABILITIES</u>		
Due to Other	-	7,459
<u>NET ASSETS</u>		
Reserved for Employee's Pension Benefits	\$ <u>1,302,257</u>	\$ <u>-</u>

CITY OF CLAWSON
Statement of Changes in Fiduciary Net Assets
Fire Retirement System Fiduciary Fund
For the Year Ended June 30, 2004

Additions:

Investment Income:

Net Appreciation (Depreciation) in Fair Value of Investments	\$ 127,430
Dividend Income	23,534

Contributions:

Employer	224,000
Employee	-
Total Additions	<u>374,964</u>

Deductions:

Administrative Expense	<u>11,804</u>
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Net Increase	363,160
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Net Assets - Beginning	<u>939,097</u>
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Net Assets - Ending	<u>\$ 1,302,257</u>
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CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Clawson, Michigan, was established in 1940 and covers an area of approximately 2.4 miles. The City operates under an elected Mayor and City Council, with a full-time City Manager appointed by this body to carry out the policies that it establishes. Services are provided to approximately 13,000 residents in the areas of police and fire protection, building code enforcement, refuse removal, parks and recreation, road construction, street lighting, maintenance, senior housing and water and sewer.

As required by generally accepted accounting principles, these financial statements present the City of Clawson and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority

The City of Clawson Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the City's business district. The DDA Board is appointed by the City Council and the annual operating budget and any modifications require the approval of the City Council. The DDA has a June 30 fiscal year end.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a special revenue fund used to account for the repair, maintenance, and construction of the City's major streets as identified by the State of Michigan Department of Transportation.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

In addition, the City reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The City's enterprise funds include the Water and Sewer Fund, which is reported as a major fund, and the Senior Citizen Housing Fund, which is reported as a nonmajor fund.

Internal Service Funds account for operations that provide services to other departments or agencies of the City on a cost reimbursement basis. As these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

The Pension Trust Fund accounts for the activities of the Fire Department Retirement System, which accumulates resources for pension benefit payments to qualified fire department employees.

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
– Continued

conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Receivables and Payables - Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2004.

3. Inventory

Inventories are valued at cost using the first-in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Restricted Assets

Proceeds from drug forfeitures are maintained by the police department. The proceeds and the interest earned on them are to be used only for drug enforcement, education, and awareness.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	31
Building Improvements	31
Equipment	5-20
Vehicles	5-7

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. This liability is composed of employees who retire who are paid for fifty to fifty-five percent of unused sick days upon termination of employment and any unused vacation paid upon termination of employment. The total liability at June 30, 2004 is \$538,141.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$516,156 difference are as follows:

Installment Notes Payable	\$ 79,806
Compensated Absences Payable	<u>436,350</u>
	<u>\$516,156</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$338,043 difference are as follows:

Capital Outlay	\$ 559,822
Depreciation Expense	<u>(221,779)</u>
	<u>\$ 338,043</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$3,408 difference are as follows:

Compensated Absences	\$ 39,688
Principal Repayments:	
Installment Notes	<u>(43,096)</u>
	<u>\$ (3,408)</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund budget is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In 2004 several budget amendments were made and are reflected in the financial statements.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The Downtown Development Authority Fund has a fund balance deficit of \$281,229 as of June 30, 2004. In 1996, the General Fund made an advance to the DDA which is to be repaid with interest. The DDA will make annual principal and interest payments on the advance until fiscal year 2014, at which time the DDA expects to eliminate the fund balance deficit.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Finance	\$106,755	\$107,096	\$ 341
General Services	225,100	227,537	2,437
Professional Services	341,925	352,966	11,041
Inspection	213,260	213,613	353
Planning Commission	25,000	30,623	5,623
Public Works	641,350	655,182	13,832
Other Functions	551,375	568,172	16,797
Capital Outlay	34,300	559,822	525,522

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2004 are as follows:

Cumulative Balance at June 30, 2003	\$ (589,996)
Fees Collected in Fiscal Year 2004	99,956
Expenditures in Fiscal Year 2004	<u>(206,700)</u>
Revenues Over (Under) Expenditures	<u>\$ (696,740)</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits along with imprest cash of \$1,300 are separately displayed on the balance sheets as "Cash and Cash Equivalents".

The carrying amount of the City's deposits with financial institutions at June 30, 2004 was \$2,979,896 and the bank balance was \$3,028,284 categorized as follows:

	<u>Bank</u> <u>Balance</u>
Insured by F.D.I.C.	\$1,408,299
Uninsured and Uncollateralized	<u>1,619,985</u>
Total	<u>\$3,028,284</u>

A reconciliation of cash for the primary government follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$2,929,834
Restricted Assets-Statement of Net Assets	43,903
Statement of Fiduciary Net Assets	<u>7,459</u>
Total	2,981,196
Less: Imprest Cash	<u>(1,300)</u>
	<u>\$2,979,896</u>

At June 30, 2004, the carrying amount and bank balance of the Downtown Development Authority, a component unit, was \$144,284 of which \$100,000 was F.D.I.C. insured.

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

- Category 1: Insured or registered, or securities held by the City or agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments – Continued

	<u>CATEGORY</u>			<u>Carrying</u>	<u>Fair</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Amount</u>	<u>Value</u>
Risk categorized –					
Pension Funds:					
Mutual Funds	<u>\$ -</u>	<u>\$1,302,257</u>	<u>\$ -</u>	<u>\$1,302,257</u>	<u>\$1,302,257</u>

B. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
<u>Governmental Activities:</u>				
Capital Assets, not depreciated:				
Land	<u>\$ 541,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 541,404</u>
Capital Assets, being depreciated:				
Buildings and Improvements	4,320,226	91,244	-	4,411,470
Machinery and Equipment	1,647,879	6,884	-	1,654,763
Office Equipment	77,805	-	-	77,805
Vehicles	<u>783,140</u>	<u>507,310</u>	<u>-</u>	<u>1,290,450</u>
	<u>6,829,050</u>	<u>605,438</u>	<u>-</u>	<u>7,434,488</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(3,140,354)	(87,903)	-	(3,228,257)
Machinery and Equipment	(984,187)	(71,049)	-	(1,055,236)
Office Equipment	(48,590)	(15,049)	-	(63,639)
Vehicles	<u>(672,723)</u>	<u>(148,744)</u>	<u>-</u>	<u>(821,467)</u>
	<u>(4,845,854)</u>	<u>(322,745)</u>	<u>-</u>	<u>(5,168,599)</u>
Governmental Activities				
Capital Assets, Net	<u>\$2,524,600</u>	<u>\$ 282,693</u>	<u>\$ -</u>	<u>\$2,807,293</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets - Continued

Business-type Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	<u>\$ 54,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,028</u>
Capital Assets, being depreciated:				
Land Improvements	27,050	-	-	27,050
Buildings	358,602	-	-	358,602
Water and Sewer Mains	4,921,886	685,024	-	5,606,910
Meters	697,175	-	-	697,175
Hydrants	360,055	29,267	-	389,322
Equipment	<u>184,982</u>	<u>19,150</u>	<u>-</u>	<u>204,132</u>
	<u>6,549,750</u>	<u>733,441</u>	<u>-</u>	<u>7,283,191</u>
Less: Accumulated Depreciation:				
Land Improvements	(27,050)	-	-	(27,050)
Buildings	(171,594)	(7,734)	-	(179,328)
Water and Sewer Mains	(3,007,018)	(63,906)	-	(3,070,924)
Meters	(469,121)	(8,715)	-	(477,836)
Hydrants	(139,092)	(6,515)	-	(145,607)
Equipment	<u>(126,839)</u>	<u>(12,087)</u>	<u>-</u>	<u>(138,926)</u>
	<u>(3,940,714)</u>	<u>(98,957)</u>	<u>-</u>	<u>(4,039,671)</u>
Business-type Activities, Capital Assets, Net	<u>\$2,663,064</u>	<u>\$634,484</u>	<u>\$ -</u>	<u>\$ 3,297,548</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 79,046
Public Safety	99,774
Public Works	113,816
Recreation and Cultural	30,109
Total	<u>\$ 322,745</u>

Business-type Activities:

Water and Sewer	\$ 87,890
Senior Citizen Housing	11,067
Total	<u>\$ 98,957</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2004, is as follows:

<u>Advance Receivable Fund</u>	<u>Advance Payable Fund</u>	<u>Amount</u>
Motor Pool Fund	General Fund	<u>\$434,845</u>
Due to/from primary government and component unit:		
General Fund	D.D.A.	<u>\$ 19,975</u>
Advances from/to primary government and component unit:		
General Fund	D.D.A.	<u>\$461,541</u>

2. Interfund Transfers

	<u>Transfers In</u>		
<u>Transfers Out:</u>	<u>General Fund</u>	<u>Local Street</u>	<u>Total</u>
Major Street Fund	\$ -	\$110,000	\$110,000
Senior Citizen Housing	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total	<u>\$20,000</u>	<u>\$110,000</u>	<u>\$130,000</u>

D. Intangible Assets

The Oakland County Drain Commission has assessed the City of Clawson for the benefit of utilizing the newly constructed North Arm Relief Drain and the George W. Kuhn Drain. The total cost of the North Arm Relief Drain is \$14,830,305 of which \$2,718,357 (18.34%) is the City of Clawson's portion. The total cost to date of the George W. Kuhn Drain is \$119,690,000 of which the City of Clawson's portion is \$6,883,424 (5.6249%). The drains will be amortized over a period of 40 years beginning July 1, 2004.

North Arm Relief Drain	\$2,718,357
George W. Kuhn Drain	<u>6,883,424</u>
Total	9,601,781
Less: Accumulated Amortization	<u>-</u>
Net Intangible Assets	<u>\$9,601,781</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

E. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2004:

	Balance July 1, 2003	Add Additional Debt Incurred	Less: Retirements and Payments on Debt	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Notes Payable	\$ 253,074	\$40,936	\$ 99,669	\$ 194,341	\$ 89,610
Compensated Absences	<u>522,192</u>	<u>-</u>	<u>19,994</u>	<u>502,198</u>	<u>43,034</u>
	<u>775,266</u>	<u>40,936</u>	<u>119,663</u>	<u>696,539</u>	<u>132,644</u>
Business-type Activities:					
Bonds Payable	6,831,675	-	52,622	6,779,053	267,712
Contracts Payable	2,611,872	-	349,131	2,262,741	110,103
Compensated Absences	<u>32,499</u>	<u>3,443</u>	<u>-</u>	<u>35,942</u>	<u>2,156</u>
	<u>9,476,046</u>	<u>3,443</u>	<u>401,753</u>	<u>9,077,736</u>	<u>379,971</u>
	<u>\$10,251,312</u>	<u>\$44,379</u>	<u>\$521,416</u>	<u>\$9,774,275</u>	<u>\$512,615</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the City as of June 30, 2004:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Governmental Activities:				
Notes Payable	4	2.80-4.89%	2007	<u>\$ 194,341</u>
Business-type Activities:				
General Obligation Bonds	5	2.50-5.375%	2024	\$6,779,053
Contracts Payable	1	2.25%	2021	<u>2,262,741</u>
Total Debt				<u>\$9,041,794</u>

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2004 are as follows:

Year Ended	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 89,610	\$ 6,886	\$ 377,815	\$ 242,108
2006	74,746	3,115	386,388	232,313
2007	29,985	664	396,689	222,290
2008	-	-	406,988	211,926
2009	-	-	417,286	201,224
2010-2014	-	-	2,250,704	835,173
2015-2019	-	-	2,562,933	517,457
2020-2024	-	-	<u>2,242,991</u>	<u>167,867</u>
	<u>\$194,341</u>	<u>\$10,665</u>	<u>\$9,041,794</u>	<u>\$2,630,358</u>

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

E. Long-Term Debt - Continued

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities, which are \$24,394 of internal service fund compensated absences and \$114,534 of internal service fund installment notes at year end.

F. Long-Term Interunit Advances

The Motor Pool Fund has an advance to the General Fund in the amount of \$434,845, at June 30, 2004. The advance is being repaid in quarterly payments over a period of 10 years at 2.50% interest. At June 30, 2004, the General Fund has an advance to the Downtown Development Authority in the amount of \$461,541. The advance is being repaid over the next 10 years with simple interest calculated using a rate determined by the City's average annual rate of interest earned on funds deposited in the National City Bank Municipal Investment Fund plus 1.25%. The rate will be reset each January 1 and accrued interest will be paid with each principal payment.

G. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2004, is presented below:

Reserved for:	<u>General</u>	<u>Special Revenue</u>
Transportation	\$ 106,905	\$ 37,517
Drug Law Enforcement	43,903	-
Advances	461,541	-
Prepaid Expenditures	<u>167,969</u>	<u>513</u>
Total Reserved	780,318	38,030
Unreserved:		
Designated for Subsequent Year	-	82,730
Undesignated (Deficit)	<u>(486,559)</u>	<u>1,375,966</u>
Total Fund Balance	<u>\$ 293,759</u>	<u>\$1,496,726</u>

H. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year, and payable in eight installments through February. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 15 mills. The City's tax levy for the 2003 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	11.1894
Refuse	<u>2.2377</u>
Total	<u>13.4271</u> mills

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City hired before July 1999, except for employees that had opted out of the plan. Currently, all police department employees continue to be covered under the MERS plan regardless of hire date. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal St., Lansing, Michigan 48917-9755.

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2001 as follows:

General - Union	15.78%
General Non-Union	18.04%
Police - Fire	16.30%
Police Command	14.31%

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

c. Annual Pension Cost

During the fiscal year ended June 30, 2004, the City's contributions totaling \$344,223 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Trend Information</u>				
<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Valuation</u> <u>Date</u> <u>Dec. 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
2001	1998	383,693	100%	-0-
2002	1999	409,837	100%	-0-
2003	2000	379,138	100%	-0-
2004	2001	344,223	100%	-0-

The information presented above was determined as part of the actuarial valuations at the dates indicated.

2. Clawson Fire Department Defined Benefit Plan

a. Plan Description

The Clawson Fire Department maintains and administers a single-employer defined benefit pension plan to provide pension benefits for its volunteer firemen. The Clawson Fire Department Defined Benefit Plan (the Plan) is considered part of the City of Clawson financial reporting entity and is included in the City's financial reports as a Pension Trust Fund. At June 30, 2004, thirty volunteer firemen were covered by the Plan. Currently, there are no terminated members receiving benefits or entitled to (retired) but not yet receiving benefits.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

2. Clawson Fire Department Defined Benefit Plan – Continued

a. Plan Description – Continued

The authority to establish or amend the plan benefits rests with the City Council. The Plan presently provides retirement as well as death benefits. All pension benefits vest after five years of total service. Employees who retire at age 50 are entitled to a monthly pension payable for life in an amount equal to \$38.50 multiplied by the years of service. Death benefits are based on the present value of accrued benefits per participant and are provided regardless of years of service. The City makes annual contributions to the Plan equal to the amount determined by an actuary. Employee contributions are not allowed. The Plan agreement does not allow post retirement benefit increases.

b. Summary of Significant Accounting Policies and Plan Asset Matters

The Plan's financial statements are prepared on the accrual basis of accounting. Contributions from the City are recognized as revenue in the period in which employees provide services to the City. Contributions include payments by the City for Plan insurance premiums, administrative costs and recommended contributions based upon actuarial determinations. Investment income is recognized as earned by the Plan. The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as an increase (decrease) of investment income based on the valuation of investments as of the date of the balance sheet. Benefits and refunds are expensed when paid.

Investments consisting of mutual funds are held in a brokerage trust account in the name of the Clawson Fire Department Employee Pension Plan. The investments are reported at fair value. Securities traded on a national or international exchange are valued at the latest market price as of the period end. There are no investments in, loans to, or leases with parties related to the Plan.

c. Concentrations

The investments of the Plan consist of mutual funds traded on a national exchange maintained with a single brokerage house – Schwab Institutional. The fair values of the individual investments at June 30, 2004 are as follows:

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

2. Clawson Fire Department Defined Benefit Plan - Continued

c. Concentrations - Continued

Securities:	
Dreyfus Midcap Index Fund	\$ 271,012
Federated US Govt. Bond Fund	180,998
NB High Income Bond Fund	123,676
Vanguard Intern Treasury Fund	180,933
Managers Special Equity Fund	150,024
Scudder Growth & Income Fund	93,205
Wilshire Fund Lg Co Growth	302,408
Schwab Money Market Fund	<u>1</u>
Total Investments	<u>\$1,302,257</u>

d. Funding Progress and Annual Required Contributions

As of June 30, 2004 and 2003 the actuarial accrued liability (AAL) was \$1,201,036 and \$996,853 respectively, greater than the actuarial value of assets. Plan amendments adopted during 2000 by the Clawson City Council included: the plan's death benefit was changed from 100 times monthly benefit to the present value of the participant's accrued monthly benefit, and the monthly benefit accrual level was increased.

e. Contributions Required and Contributions Made

The City Council retains the authority to establish or amend the City's obligation to contribute to the plan. The City's policy is to annually fund plan contributions to cover administrative costs and the actuarial recommended contribution. The recommended contributions are determined on an actuarial basis using the modified aggregate actuarial cost method. Under this method, the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation, over the actuarial value of assets is allocated on a level basis over the service of the group between the valuation date and the assumed exit. This allocation is performed for the group as a whole. That portion of the actuarial present value allocated to a valuation year is called the normal cost. Under this method, the actuarial gains (losses), as they occur, reduce (increase) future normal costs.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

2. Clawson Fire Department Defined Benefit Plan - Continued

e. Contributions Required and Contributions Made - Continued

Total contributions to the Plan for the year ended June 30, 2004 amounted to \$224,000 which covered actuarial recommended contribution and administrative costs, and was based on an actuarial valuation as of July 1, 2003 determined as described above.

f. Long-Term Contracts and Reserves

There are no long-term contracts for contributions. In addition, there are no assets legally reserved for purposes other than the payment of plan member benefits.

<u>Schedule of Employer Contributions</u>				
<u>Fiscal Year Ended June 30,</u>	<u>Valuation Date June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
1998	1997	\$ 7,435	100%	\$-0-
1999	1998	7,252	100%	-0-
2000	1999	10,000	100%	-0-
2001	2000	228,000	100%	-0-
2002	2001	224,000	100%	-0-
2003	2002	224,000	100%	-0-
2004	2003	224,000	100%	-0-

3. City of Clawson Executive Plan – Defined Contribution Plan

a. Plan Description

The City of Clawson contributes to the City of Clawson Executive Plan, which is a defined contribution money purchase pension plan. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval.

A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

3. City of Clawson Executive Plan – Defined Contribution Plan - Continued

a. Plan Description - Continued

of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. The City Manager, if not covered by MERS, is eligible to participate in the plan. Contributions made by the City for an employee vest immediately.

b. Contributions Required and Contributions Made

The City is required to contribute an amount equal to 10% of the employee's gross earnings. Employee contributions on an after tax basis are permitted but not required. During the year, the City's required and actual contributions amounted to \$8,340. There were no employee contributions.

4. City of Clawson Employees Defined Contribution Plan

a. Plan Description

In April 1999, the City established a defined contribution plan for employees hired after July 1, 1999. The plan is administered by the ICMA Retirement Corporation (ICMA) who sponsors the prototype plan. Amendments are developed by ICMA and submitted to the City Council for approval. A defined contribution money purchase pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Contributions made by the City fully vest after 7 years.

b. Contributions Required and Contributions Made

The City is required to contribute an amount equal to 8% of the employee's gross earnings. Employee contributions on an after tax basis are permitted but not required. The City will match up to 2% of an employee's contribution. During the year, the City's required and actual contributions amounted to \$44,767. The employee contributions were \$8,954.

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION – Continued

B. Post Retirement Health Care Benefits

The City provides post retirement health care insurance coverage to all employees who retire from the City. Currently 51 retirees are covered by this plan. This coverage is offered under contractual arrangements between the employees and the City. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total expenditures were \$528,387 for the year ended June 30, 2004.

C. Risk Management

The City of Clawson is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Clawson and the pools to which it belongs in any of the past three fiscal years.

D. Jointly Governed Organizations

1. Resource Recovery Authority

The City is a member of the Southeastern Oakland County Resource Recovery Authority (S.O.C.R.R.A.). The City appoints one member of the Authority's governing board, who then approves the annual budget. The board is made up of representatives from twelve member municipalities. These include Berkley, Beverly Hills, Birmingham, Clawson, Ferndale, Hazel Park, Huntington Woods, Lathrup Village, Oak Park, Pleasant Ridge, Royal Oak, and Troy. The City has a 4.54% participation in the Authority. The joint agreements do not set forth a method for determining each participant's share in the Authority.

2. Water Authority

The City is a member of the Southeastern Oakland County Water Authority (S.O.C.W.A.). The City appoints one member to the Authority's governing board, who then approves the annual budget. The board is made up of

CITY OF CLAWSON
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION – Continued

D. Jointly Governed Organizations – Continued

2. Water Authority – Continued

representatives from eleven member municipalities. These include Berkley, Beverly Hills, Bingham Farms, Birmingham, Clawson, Huntington Woods, Lathrup Village, Pleasant Ridge, Royal Oak, Southfield and Southfield Township. The City has a 4.05% participation in the Authority. The debt of the Authority is being financed by water user fees.

E. Contingencies

1. George W. Kuhn Drain Project

The City along with other surrounding communities has authorized the Oakland County Drain Commissioner to administer the George W. Kuhn Drain Project (formerly known as the Twelve Towns Combined Sewer Overflow Control Program) for the construction of drain improvements. These improvements will be constructed at an estimated cost of \$144,000,000, of which 5.6249% shall be apportioned to the City of Clawson. Construction commenced in September 2000. The project is expected to be financed through the State of Michigan Revolving Fund for the first three years for approximately \$30,000,000, which is to be repaid at approximately 2.50% over 20 years and then additional debt will be issued to complete the project. Drainage District bonds Series 2000 and 2001 A - E have been issued totaling \$119,690,000 of which the City of Clawson's portion is \$6,883,424. The first debt payment due by the City of Clawson was made in April 2001.

2. Crooks Road Improvement Project

The City entered into an interlocal agreement with the City of Royal Oak for a joint project for improvements to Crooks Road. The project was completed four years ago but the City has not received a request for payment on the project from the City of Royal Oak to date. The City of Clawson has only received an invoice for preliminary engineering costs on the project of \$16,705 which was paid and expensed in fiscal year 1999. The total project cost and the City's share of the project cost is unknown.

3. Fourteen Mile and Rochester Road Improvement Project

In August 1998, the City entered into a road improvement agreement with Oakland County Road Commission for improvements to Fourteen Mile Road including the Rochester Road intersection. The total project cost was estimated to be \$1,075,870 of which Clawson's portion was \$403,290 less \$35,290 of Tri-Party Program funds. The project was completed as of June 30, 1999, but to date the County has only invoiced the City for \$198,295 which was recorded in fiscal year 1999. The total amount owed by the City of Clawson is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2004

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u>
12/31/97	8,842,072	12,667,830	3,825,758	70	3,037,794	126%
12/31/98	9,758,621	12,601,413	2,842,792	77	2,754,458	103%
12/31/99	11,017,651	14,022,504	3,004,853	79	2,632,630	114%
12/31/00	11,669,456	15,143,452	3,473,996	77	2,568,774	135%
12/31/01	12,139,773	15,651,784	3,512,011	78	2,471,650	142%
12/31/02	11,778,630	17,093,129	5,314,499	69	2,151,124	247%
12/31/03	11,759,058	18,472,108	6,713,050	64	2,124,567	316%

Additional information as of December 31, 2003, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 8.66%
Includes inflation at 4.5%	
Cost of living adjustments	None

CITY OF CLAWSON
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2004

Fire Department Defined Benefit Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Modified Aggregate (b)	Excess Assets Over (Under) AAL (b-a)	Funded Ratio (a/b)
7/1/98	\$333,943	\$ 475,081	\$ (141,138)	70%
7/1/99	334,760	496,481	(161,721)	67%
7/1/00	296,628	1,996,539	(1,699,911)	15%
7/1/01	476,761	1,300,528	(823,767)	37%
7/1/02	659,108	1,790,984	(1,131,876)	37%
7/1/03	939,097	1,935,950	(996,853)	49%
7/1/04	1,302,908	2,503,944	(1,201,036)	52%

Due to the part-time nature of volunteer firemen, all payroll based required disclosures are not deemed relevant.

Additional information as of July 1, 2004, the latest actual valuation, follows:

Actuarial cost method	Modified aggregate
Amortization method	Future normal cost is amortized over future years of service
Amortization period	7.75 years
Actuarial asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6%
Projected salary increases	Not applicable
Post retirement benefit increases	None
Inflation	None

CITY OF CLAWSON
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Property Taxes	\$ 3,839,500	\$ 3,793,000	\$ 3,786,896	\$ (6,104)
Penalties and Interest	24,000	24,000	22,885	(1,115)
Property Tax Administration Fee	148,000	148,000	146,360	(1,640)
Licenses and Permits	146,100	139,600	134,049	(5,551)
Intergovernmental - State	1,388,700	1,285,099	1,350,839	65,740
Intergovernmental - Local	22,600	22,600	22,600	-
Charges for Services	224,670	192,070	202,175	10,105
Fines and Forfeitures	119,500	101,500	96,825	(4,675)
Franchise Fees	108,000	108,000	116,510	8,510
Interest Earnings	100,000	60,000	56,461	(3,539)
Rents	30,500	20,000	20,420	420
Other Revenues	218,750	268,200	267,312	(888)
Total Revenues	6,370,320	6,162,069	6,223,332	61,263
Expenditures:				
General Government:				
City Council	14,945	14,945	12,639	2,306
City Manager	183,300	187,065	184,014	3,051
Elections	12,900	9,200	8,894	306
Finance	106,825	106,755	107,096	(341)
Clerk	154,230	154,905	152,188	2,717
Treasurer	169,070	165,920	163,399	2,521
General Services	250,200	225,100	227,537	(2,437)
Professional Services	310,425	341,925	352,966	(11,041)
	1,201,895	1,205,815	1,208,733	(2,918)
Public Safety:				
Police	2,095,525	1,968,500	1,888,881	79,619
Fire	457,025	358,975	354,984	3,991
Inspection	224,855	213,260	213,613	(353)
Planning Commission	30,100	25,000	30,623	(5,623)
	2,807,505	2,565,735	2,488,101	77,634
Public Works:				
Building and Grounds	521,860	501,350	511,957	(10,607)
Street Lighting	140,000	140,000	143,225	(3,225)
	661,860	641,350	655,182	(13,832)
Health and Welfare	179,600	176,535	170,387	6,148
Recreation and Cultural	1,016,785	908,290	874,182	34,108
Other Functions	522,675	551,375	568,172	(16,797)
Debt Service:				
Principal	-	75,760	43,096	32,664
Interest and Other Charges	-	13,510	12,783	727
	-	89,270	55,879	33,391
Capital Outlay	-	34,300	559,822	(525,522)
Total Expenditures	6,390,320	6,172,670	6,580,458	(407,788)
Excess (Deficiency) of Revenues Over Expenditures	(20,000)	(10,601)	(357,126)	(346,525)
Other Financing Sources (Uses):				
Transfers In	20,000	20,000	20,000	-
Net Change in Fund Balance	-	9,399	(337,126)	(346,525)
Fund Balance - Beginning	630,885	630,885	630,885	-
Fund Balance - Ending	\$ 630,885	\$ 640,284	\$ 293,759	\$ (346,525)

CITY OF CLAWSON
Major Street Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Intergovernmental - State	\$ 443,145	\$ 458,145	\$ 498,794	\$ 40,649
Sidewalk Revenue	50,000	-	-	-
Interest Income	12,500	4,000	9,158	5,158
Total Revenues	<u>505,645</u>	<u>462,145</u>	<u>507,952</u>	<u>45,807</u>
<u>Expenditures:</u>				
Highways, Streets, Sidewalks and				
Other Maintenance	286,345	176,330	178,435	(2,105)
Administrative	25,100	25,100	22,000	3,100
Total Expenditures	<u>311,445</u>	<u>201,430</u>	<u>200,435</u>	<u>995</u>
Excess (Deficiency) of Revenues				
Over Expenditures	194,200	260,715	307,517	46,802
<u>Other Financing Sources (Uses):</u>				
Transfers Out	<u>(110,000)</u>	<u>(110,000)</u>	<u>(110,000)</u>	<u>-</u>
Net Change in Fund Balance	84,200	150,715	197,517	46,802
Fund Balance, July 1	<u>898,312</u>	<u>898,312</u>	<u>898,312</u>	<u>-</u>
Fund Balance, June 30	\$ <u>982,512</u>	\$ <u>1,049,027</u>	\$ <u>1,095,829</u>	\$ <u>46,802</u>

CITY OF CLAWSON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Local Street</u>	<u>Refuse Collection</u>	<u>Total Nonmajor Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 334,341	\$ 118,194	\$ 452,535
Accounts Receivable	130	7,830	7,960
Due from State	<u>16,767</u>	<u>-</u>	<u>16,767</u>
Total Assets	<u>\$ 351,238</u>	<u>\$ 126,024</u>	<u>\$ 477,262</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts Payable	\$ 5,999	\$ 67,467	\$ 73,466
Accrued Liabilities	<u>2,899</u>	<u>-</u>	<u>2,899</u>
Total Liabilities	<u>8,898</u>	<u>67,467</u>	<u>76,365</u>
Fund Balance:			
Reserved for Transportation	37,517	-	37,517
Unreserved:			
Designated for Subsequent Year's Expenditures	82,730	-	82,730
Undesignated	<u>222,093</u>	<u>58,557</u>	<u>280,650</u>
Total Fund Balance	<u>342,340</u>	<u>58,557</u>	<u>400,897</u>
Total Liabilities and Fund Balance	<u>\$ 351,238</u>	<u>\$ 126,024</u>	<u>\$ 477,262</u>

CITY OF CLAWSON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Local Street	Refuse Collection	Total Nonmajor Governmental Funds
<u>Revenues:</u>			
Taxes	\$ -	\$ 757,318	\$ 757,318
Intergovernmental - State	241,508	-	241,508
Interest Income	1,473	-	1,473
Total Revenues	<u>242,981</u>	<u>757,318</u>	<u>1,000,299</u>
<u>Expenditures:</u>			
Highways, Streets, Sidewalks and Other Maintenance	211,613	-	211,613
Administrative	23,750	-	23,750
Sanitation	-	734,229	734,229
Total Expenditures	<u>235,363</u>	<u>734,229</u>	<u>969,592</u>
Excess (Deficiency) of Revenues Over Expenditures	7,618	23,089	30,707
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	<u>110,000</u>	-	<u>110,000</u>
Net Change in Fund Balance	117,618	23,089	140,707
Fund Balance, July 1	<u>224,722</u>	<u>35,468</u>	<u>260,190</u>
Fund Balance, June 30	<u>\$ 342,340</u>	<u>\$ 58,557</u>	<u>\$ 400,897</u>

POST, SMYTHE, LUTZ AND ZIEL LLP

Certified Public Accountants

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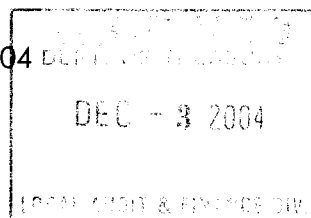
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October 7, 2004



Honorable Mayor and City Council
City of Clawson
Clawson, Michigan

In planning and performing our audit of the City of Clawson for the year ended June 30, 2004, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated October 7, 2004 on the financial statements of the City of Clawson.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City administrative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,

Post, Smythe, Lutz + Ziel

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Property Tax Settlement

To further improve the settlement process, the following should be considered:

- Balances in the liability accounts of the Trust and Agency general ledger should be compared to Treasurer's records of balance due to City of Clawson and other taxing authorities at settlement.
- All cash receipts should be deposited in the same batches as entered into computerized point of sale.
- The accounting records for the property tax receipts and disbursements should be posted on a monthly basis. The bank accounts, deposits and disbursements should be reconciled from the bank statement to the general ledger.

Accounting Records

While the records available for audit improved, as measured by the reduced number of journal entries we proposed, additional improvement appears necessary:

- Contemporaneous posting of cash receipts, disbursements, and adjusting journal entries. Currently, cash receipts are posted in monthly "batches" in the general ledger and not on a daily basis. Bank reconciliations are performed using spreadsheets rather than the City's general ledger system.
- Accrual cost recognition-currently the City posts the records on a cash basis, and then converts to accrual at year end, to facilitate the annual audit. We suggest a bottom up review of the current processes to streamline cost recognition, yet still maintain the current review and approval of disbursements.
- Better documentation of adjusting journal entries – We suggest a "general journal" entry ledger be maintained with supporting documentation of all adjustments filed behind the adjustments.